

Message Text

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TO SECSTATE WASHDC IMMEDIATE 1665

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 11219

EXDIS

USEEC

FOR DAVE COHN AND BOB ROTHSTEIN (IO) ONLY FROM FRANK

E.O. 11652: GDS
TAGS: UNCTAD, EGEN
SUBJECT: G77 PAPER ON COMMON FUND

1. I READ CAREFULLY THROUGH THE G77 PAPER ON THE COMMON FUND ON THE PLANE TO EUROPE. WE OUGHT TO WRITE UP AN ANALYSIS OF THAT PAPER FOR MR. COOPER, PARTICULARLY AS PART OF HIS BRIEFING FOR HIS DINNER MEETING ON SEPTEMBER 16. THE PAPER MIGHT TREAT EACH OF THE DIFFERENT ISSUES--E.G., CENTRAL SOURCE VERSUS POOLING, OTHER MEASURES, ORGANIZATION AND MANAGEMENT--STATING THE ESSENCE OF THE G77 VIEW, THE CURRENT STATE OF OUR THINKING, AND VARIOUS WAYS IN WHICH THE GAP MIGHT REASONABLY BE BRIDGED. IN THE PAPER YOU MIGHT INCORPORATE THE FOLLOWING OBSERVATIONS:

2. THE PROPOSAL PUT FORWARD BY THE G77 IS BASICALLY A CENTRAL SOURCE COMMON FUND, AS STATED IN THE SECOND OBJECTIVE, BUT IT CONTAINS ELEMENTS OF POOLING, AT LEAST AS POSSIBILITIES. ARTICLE 31 OF THE G77 DOCUMENT ALLOWS TH PAYMENTS MADE IN TO ICO'S AND DEPOSITED WITH THE
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COMMON FUND TO BE CREDITED AGAINST A COUNTRY'S CONTRIBUTION. ALTERNATIVE C IN THE ANNEX SUGGESTS THAT CONTRIBUTIONS INTO THE CF SHOULD BE PAID IN PARI PASSU WITH THE EFFECTIVE CONCLUSIONS OF COMMODITY AGREEMENTS. THIS ALTERNATIVE IS CONSISTENT WITH THE CONCEPT OF POOLING.

3. IT SEEMS TO ME THAT A REASONABLE COMPROMISE BETWEEN THE CENTRAL SOURCE CONCEPT AND THE POOLING CONCEPT IS THAT THERE SHOULD BE TWO SOURCES OF FINANCE FOR THE COMMON FUND--THAT AGREED TO AND DEPOSITED BY MEMBERS OF INDIVIDUAL ICOS (POOLING) AND THAT DERIVED BY SUBSCRIPTION SHARES (CENTRAL SOURCE). THERE SHOULD BE A FIXED RATIO BETWEEN THE TWO SOURCES, NOT ONLY FOR THE CF AS A WHOLE BUT FOR EACH ICO. THE ACCESS OF AN INDIVIDUAL ICO TO CF LOANS WOULD BE LIMITED TO A FIXED PROPORTION OF THE FINANCE THAT THE INDIVIDUAL ICO IS WILLING TO PUT UP. THERE WOULD BE TOUGH BARGAINING OVER THE RATIO, BUT UNTIL BOTH DCS AND LDCS ARE WILLING TO ADMIT EACH OTHER'S FINANCING CONCEPT, THERE SEEMS TO BE NO CHANCE OF AN AGREEMENT. NEITHER CONCEPT ALONE MAKES MUCH PRACTICAL SENSE EITHER. A CF WITH POOLING ONLY CONTAINS A FEW INCENTIVES FOR INDIVIDUAL ICO'S TO JOIN. A CF WITH CENTRAL SOURCE ONLY HAS NO BASIS FOR DETERMINING TOTAL FINANCING REQUIREMENTS OF THE CF AS DERIVED FROM INDIVIDUAL ICO FINANCING REQUIREMENTS AND NO REASONABLE BASIS FOR LIMITING ACCESS OF AN INDIVIDUAL ICO TO CF FINANCING.

4. THE G77 PAPER IS VERY VAGUE ON THE MANNER IN WHICH THE BORROWING AUTHORITY OF THE CF WOULD WORK AND IN PARTICULAR HOW STOCKS COULD BE PLEDGED AS COLLATERAL. USING THE TWO-SOURCE CONCEPT DISCUSSED IN PARAGRAPH 3, THE CF COULD BORROW AGAINST--1) CALLABLE CAPITAL OR GUARANTEES GIVEN BY CONFIDENTIAL

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MEMBER GOVERNMENTS OF THE CF ON THE BASIS OF CF SUBSCRIPTIONS, AND --2) CALLABLE CAPITAL, GUARANTEES OR STOCKS PLEDGED ON COLLATERAL BY INDIVIDUAL ICOS ON A BASIS DECIDED BY THE MEMBERS OF THE INDIVIDUAL ICOS. THE RATIO BETWEEN CASH CONTRIBUTIONS AND GUARANTEES OR CALLABLE CAPITAL IS ALSO AN IMPORTANT ITEM FOR NEGOTIATION. THE G77 PAPER CALLS FOR A ONE-TO-TWO RATIO REGARDING SUBSCRIPTION (CENTRAL SOURCE) CAPITAL. IN OUR CURRENT VERSION OF POOLING, WE ARE ARGUING FOR A VERY HIGH CASH CONTRIBUTION FROM INDIVIDUAL ICOS. I SEE NO PARTICULARLY GOOD RATIONALE FOR THIS POSITION AND COULD MAKE A GOOD ECONOMIC ARGUMENT THAT ICOS SHOULD PUT UP NO CASH, ONLY CALLABLE CAPITAL, GUARANTEES, OR STOCKS AS COLLATERAL.

5. THE QUESTION OF OTHER MEASURES WILL BE, AS YOU KNOW, VERY DIFFICULT TO RESOLVE. I WAS ENCOURAGED, HOWEVER, BY THE G77 TEXT IN THAT ARTICLE 2 (C), WHICH LISTS THE OTHER MEASURES TO BE FINANCED, DOES NOT INCLUDE A REFERENCE TO COMPENSATORY PAYMENTS TO LDC IMPORTERS OF COMMODITIES WHOSE PRICES ARE RAISED BY COMMODITY AGREEMENT. THERE ARE SEVERAL WAYS OUT OF THE IMPASSE OVER OTHER MEASURES. FIRST, WE COULD AGREE THAT THE NEXT WORLD BANK CAPITAL

INCREASE AND REGIONAL DEVELOPMENT BANK REPLENISHMENTS
WOULD INCLUDE ADDITIONAL FUNDS FOR OTHER MEASURES. SECOND,
WE MIGHT AGREE THAT THE COMMON FUND COULD MAKE RECOMMENDA-
TIONS TO THE WORLD BANK AND THE REGIONAL DEVELOPMENT
BANKS ON OTHER MEASURES. THIRD, WE COULD ALLOW FOR A
VOLUNTARY FUND FOR OTHER MEASURES AS PART OF THE COMMON
FUND. THE US NEED NOT CONTRIBUTE TO THE VOLUNTARY FUND,
BUT THE NORWEGIANS AND POSSIBLY OTHERS WOULD CONTRIBUTE.

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C O N F I D E N T I A L SECTION 02 OF 02 BRUSSELS 11219
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A COMBINATION OF THESE THREE MEASURES MIGHT BE REQUIRED,
BUT I WOULD OPT FOR THE FIRST TWO ONLY. I THINK WE
OUGHT TO TRY TO AVOID THE CREATION OF ANOTHER MULTILATERAL
AID INSTITUTION. EVEN IF THE US DOESN'T CONTRIBUTE NOW,
THERE MAY BE GROWING PRESSURES FOR US TO CONTRIBUTE. WE
MAY BE DRIVEN TO THE THIRD OPTION, HOWEVER, IF TREASURY
KEEPS INSISTING THAT THE WORLD BANK SHOULD BE UNTAINTED
BY ANY RELATIONSHIP TO THE COMMON FUND.

6. ANOTHER DIFFICULT ISSUE WILL BE THE QUESTION OF WHETHER
THE CF SHOULD LEND TO MEMBER GOVERNMENTS FOR HOLDING
STOCKS OF COMMODITIES THAT ARE NOT SUBJECT TO COMMODITY
AGREEMENTS (SEE ARTICLE 2 (D) AND FOOTNOTE). I DON'T
SEE WHY THE CF SHOULDN'T LEND, ESPECIALLY TO POOR
COUNTRIES WITH POOR ACCESS TO CAPITAL MARKETS, FOR THE
PURPOSE OF FINANCING STOCKS WHEN PRICES ARE LOW RATHER
THAN HAVE THESE COUNTRIES DUMP MORE COMMODITIES ON WORLD
MARKETS. I DO THINK, HOWEVER, THAT THERE SHOULD BE AT A
MINIMUM, A CONSULTATIVE ARRANGEMENT AMONG THE PRODUCERS
AND CONSUMERS OF THAT COMMODITY AND THAT THE COMMON FUND
SHOULD ACT ON THE RECOMMENDATION OF THE CONSULTATIVE
GROUP BEFORE LENDING TO INDIVIDUAL COUNTRIES TO FINANCE
STOCKS. THE COLOMBIAN PROPOSAL IN THE G77 TEXT SEEMS TO
BE A REASONABLE FORMULATION OF TERMS UNDER WHICH THE CF

COULD LEND WITHOUT A COMMODITY AGREEMENT.

7. THERE IS A PROBLEM WITH LENDING FOR HOLDING STOCKS
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OF COMMODITIES THAT ARE NOT SUBJECT TO AN AGREEMENT. THE
LENDING WOULD HAVE TO COME FROM A CENTRAL SOURCE. BUT
THIS PROBLEM WOULD BE LESS DIFFICULT IF WE COULD AGREE TO
SOME CENTRAL SOURCE OF FINANCE.

8. SECTION V OF THE G77 PAPER CALLS FOR RATHER ELABORATE
ARRANGEMENTS FOR ORGANIZATION AND MANAGEMENT. IT HAS NO
ARRANGEMENT FOR ICO REPRESENTATION, ONLY MEMBER GOVERNMENT
REPRESENTATION. A VOTING FORMULA IS NOT SPECIFIED. THE
BOARD HAS RATHER SWEEPING POWERS. ITS POWER TO INCREASE
OR DECREASE THE CAPITAL STOCK NEEDS TO BE LIMITED, SAY BY
REQUIRING NEAR UNANIMOUS CONSENT.

9. I HOPE A DRAFT OF THE BRIEFING PAPER FOR COOPER COULD
BE AVAILABLE FIRST THING SATURDAY MORNING, SEPTEMBER 10.
ALSO ON THE 10TH, I WOULD LIKE TO SEE A COPY OF THE ACTION
MEMO TO COOPER IN CABLE FORM, ON INVITEES TO THE DINNER
IN NEW YORK ON THE 16TH. COULD DAVE COHN AND JOHN WASHBURN
BE ON CALL SATURDAY IF I NEED SOME HELP SINCE I WILL BE
IN NEW YORK MOST OF THE FOLLOWING WEEK.

10. COULD YOU REPEAT IMPORTANT CABLES TO ME IN BRUSSELS
AND PARIS, ESPECIALLY ANYTHING HAVING TO DO WITH THE
RESUMED 31ST UNGA OR UN RESTRUCTURING. MORRIS

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